

## Message Text

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ACTION ARA-06

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C O N F I D E N T I A L LIMA 10691

LIMDIS

FOR ARA - MR. FISHLOW; S/P - MR EINAUDI

EO 11652: GDS

TAGS: ENRG, PE

SUBJ: OCCIDENTAL PETROLEUM-PETROPERU REACH AGREEMENT

REF: LIMA 10572

1. SUMMARY: SENIOR OCCIDENTAL PETROLEUM OFFICIAL INFORMED US ON DECEMBER 30 THAT THREE AGREEMENTS WITH GOP HAVE BEEN SIGNED AND ARE AWAITING COUNCIL OF MINISTERS APPROVAL, EXPECTED VERY SOON. AGREEMENTS CALL FOR PETROPERU TO BUILD SPUR, FOR THRU-PUT WITH FIXED ANNUAL TARIFF FOR OXY CRUDE, FOR SOME OXY SALES TO PETROPERU AND FOR OXY TO CONSTRUCT TOPPING PLANT TO SUPPLY PROJECT FUEL NEEDS. TOTAL OXY INVESTMENT WILL BE 240 MILLION DOLLARS. STRONG POSSIBILITIES EXIST FOR SOME EXIMBANK FINANCING. EMBASSY SEES AGREEMENTS AS POSITIVE STEP WHICH IS MUTUALLY BENEFICIAL. END SUMMAY.

2. EMBASSY ECON/COML COUNSELOR MET DECEMBER 30 WITH DAVID MARTIN, PRESIDENT, OCCIDENTAL PETROLEUM PERU, TO DISCUSS THREE NEW AGREEMENTS NOW AWAITING COUNCIL OF MINISTERS APPROVAL.

3. FIRST AGREEMENT CALLS FOR PETROPERU (STATE OIL AGENCY) TO BUILD SPUR-LINE TO OXY FIELDS WITH OXY CONTINUING  
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DEVELOPMENT AREA AND ENTERING INTO THRU-PUT AGREEMENT FOR

CRUDE OF UP TO 40,000 BARRELS PER DAY (B/D) AT FLAT ANNUAL RATE OF 21.7 MILLION DOLLARS FOR USE OF SPUR AND MAIN PIPELINES. SPUR-LINE CAPACITY IS TO BE 80,000 B/D TO HANDLE BOTH OXY AND PETROPERU CRUDE (SPLIT 50-50). SECOND AGREEMENT PROVIDES FOR SOME SALES OXY CRUDE TO PETROPERU, WHILE THIRD AGREEMENT PERMITS OXY TO CONSTRUCT TOPPING PLANT TO REFINER ALL NEEDED DIESEL AND JP-1 FOR MACHINERY, LAND TRANSPORT EQUIPMENT, BOATS, AND (IN CASE JP-1) HELICOPTERS. RESIDUAL MIXED WITH CRUDE WILL BE BARGED FOR SALES TO PETROBRAS.

4. UNDER NEW AGREEMENTS, OXY PLANS INCREASE PRODUCTION FOR SHIPMENT TO BRAZIL FROM PRESENT 10,000 B/D TO 20,000 WITHIN TWO-YEAR TIME SPAN ESTIMATED TO REQUIRE COMPLETION OF SPUR-LINE. BARGE TRANSPORT ADEQUATE FOR THESE QUANTITIES, AND PETROBRAS SEEMS READY BUYER DURING THAT TIME FRAME. PRODUCTION IN 1978 AND BEYOND DEPENDS IN PART ON GOP DECISION WHETHER TO DEplete RESERVES RAPIDLY TO SECURE FOREIGN EXCHANGE OR TO HOLD BACK ON PRODUCTION. IN CASE PRODUCTION IS HELD BACK BY PETROPERU, CONTRACT PROVISION WOULD REDUCE OR ELIMINATE THRU-PUT TARIFF.

5. MARTIN FEELS U.S. SUPPLIERS HAVE COMPETITIVE OPPORTUNITY TO SELL PETROPERU PIPE AND OTHER SUPPLIES, PARTICULARLY IF EXIMBANK FINANCING IS AVAILABLE. GERMAN FIRM WITH PIPE MILL IN PERU WILL ALSO BE COMPETITOR, AS WILL JAPANESE, WHO HAVE EXPERIENCE TO RECOMMEND THEM. OXY WILL BE SEEKING EXIMBANK FINANCING AS WELL FOR CONSTRUCTION GATHERING LINES AND FOR RELATED EQUIPMENT, MARTIN ADDED.

6. ON FINANCIAL SIDE, MARTIN ESTIMATED THAT OXY HAS INVESTED 110 MILLION DOLLARS IN DEVELOPMENT TO DATE, AND NOW PLANS TO INVEST 130 .8))89, .943, FOR TOTAL 240 MILLION DOLLARS. MAXIMUM EXPOSURE WILL NOT REACH THIS AMOUNT, HOWEVER, AS BARGE CRUDE SALES TO PETROBRAS WILL REDUCE NEGATIVE CASH FLOW OVER NEXT TWO YEARS. ONLHIGHLY CONFIDENTIAL NOTE, MARTIN ESTIMATED THAT PAYOUTS WOULD AMORTIZE INVESTMENT AND COST OF MONEY BY 1980.

7. OXY DOES NOT KNOW HOW GOP LLANS TO HANDLE ANNOUNCEMENT OF CONTRACT SIGNATURES AND COUNCIL OF MINISTERS APPROVAL  
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(WHICH MARTIN EXPECTS BEFORE YEAR'S END), BUT FOR ITS PART PLANS LOW-KEY PRESS RELEASE FROM BAKERSFIELD HEADQUARTERS. MARTIN OPINED THAT IF GOP HANDLED IT WELL, AGREEMENTS COULD BE PRESENTED TO PUBLIC IN VERY PRO-PERUVIAN FASHION AND COULD BENEFIT GOVERNMENT'S IMAGE.

8. WHEN ECON COUN INQUIRED ABOUT STATE OF RELATIONS BETWEEN OXY AND GOP, MARTIN REPLIED THAT THEY WERE EXCELLENT AT

MINISTER AND VICE-MINISTER LEVEL, WITH HEAD OF COFIDE, AND EVEN WITH HEAD OF PETROPERU. HOWEVER, WORKING LEVELS, PARTICULARLY IN PETROPERU, HAD CREATED CERTAIN SNAGS AND DELAYS IN CONTRACT NEGOTIATIONS AND THERE IS CERTAIN ANTI-TRANS-NATIONAL BIAS APPARENT, WHICH IN THIS CASE WAS OVERCOME BY DIRECT ORDERS OF MINISTER.

9. COMMENT: OXY AGREEMENTS WITH PETROPERU APPEAR TO US TO BE MUTUALLY BENEFICIAL AND TO REPRESENT POSITIVE STEP FORWARD. COUNCIL OF MINISTERS ACTION ON AGREEMENTS WILL BE REPORTED PROMPTLY. FOLLOWING EXPECTED APPROVAL, WE WILL PROBABLY BE HEARING MORE ABOUT QUESTION OF POSSIBLE EXIMBANK FINANCING FROM COFIDE AND PETROPERU.

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